

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00 COME-00
DODE-00 EB-08 FRB-03 H-01 INR-07 INT-05 L-03 LAB-04
NSAE-00 NSC-05 PA-01 AID-05 SS-15 STR-04 ITC-01
TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01 SIL-01
SEC-01 FTC-01 (ISO) W
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FM USMISSION EC BRUSSELS
TO SECSTATE WAHSDC 3155
INFO USDEL MTN GENEVA

LIMITED OFFICIAL USE SECTION 1 OF 2 EC BRUSSELS 02041

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SUBJECT: EC SUBSIDY PRACTICES

REF: (A) STATE 25748, (B) 76 EC BRUSSELS A-509,
(C) 76 EC BRUSSELS 11421, (D) 76 EC BRUSSELS A-349,
(E) 75 EC BRUSSELS A-95 (F) EC BRUSSELS 488,
(G) 76 EC BRUSSELS 11682, (H) 76 EC BRUSSELS A-506

1. DRAFT PAPER ON NATIONAL SUBSIDY POLICIES AND THE
EUROPEAN COMMUNITY (MENTIONED IN REF. A) PROVIDES
EXCELLENT REVIEW OF MAIN ELEMENTS OF EC POLICY ON STATE
AIDS ON BEHALF OF REGIONAL AND INDUSTRIAL POLICIES. OUR
MOST RECENT GENERAL REPORTS ON THE SUBJECT (REFS) ARE
MENTIONED BELOW.

2. GENERAL EC POLICY IN STATE AIDS HAS BEEN EVOLVING
RECENTLY AS THE COMMISSION BECOMES MORE INVOLVED IN THIS
SENSITIVE FIELD. THE COMMISSION BASES ITS ATTITUDES
TOWARD STATE AIDS ON THE NEED TO PREVENT AIDS FROM
CAUSING UNDUE DISTORTION TO COMPETITION WITHIN THE
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EC AND THE NEED TO MAKE REGIONAL AND SECTORAL POLICIES
MORE EFFECTIVE. UNDER INCREASING SOCIAL AND ECONOMIC
PRESSURES, HOWEVER, THE COMMISSION'S CONCERN FOR COM-
858;3 EFFECTS HAS LOST SOME GROUND RELATIVE TO ITS
DESIRE TO PROMOTE INDUSTRIAL POLICY. EUROPE LACKS THE
MOBILITY OF LABOR WHICH EXISTS IN THE US AND MOST EC
GOVERNMENTS WILL EXERT PRESSURE ON THE COMMISSION TO

APPROVE QUESTIONABLE AID PROGRAMS IN ORDER TO AVOID CLOSING OF KEY INDUSTRIES AND LARGE-SCALE EMPLOYEE DISMISSALS. THE PRESUMPTION IN THE COMMISSION APPEARS TO BE THAT AIDS WILL CONTINUE SINCE THEY ARE ESSENTIAL TO SUCCESSFUL SECTORAL AND REGIONAL POLICY, PARTICULARLY THOSE AIDS WHICH INVOLVE RESTRUCTURING OF INDUSTRY AND NARROWING THE GAPS BETWEEN RICH AND POOR SECTIONS OF THE COMMUNITY AND THAT IT IS INCONCEIVABLE THAT THEIR ROLE IN ECONOMIC ACTIVITY WILL NOT GROW. THIS BEING SAID, THERE ARE SOME AREAS OF SUBSIDIES TO WHICH THE COMMISSION REFAINS FLATLY OPPOSED, E.G., EXPORT SUBSIDIES (EXCEPT FOR AGRICULTURE), PRODUCTION SUBSIDIES, OR THOSE WHICH AIM AT EXPANSION OF CAPACITY IN STRUCTURALLY AILING INDUSTRIES.

3. REF E DESCRIBES THE GENERAL LIMITS IMPOSED ON MEMBER STATE SUBSIDIES. THE COMMISSON SELDOM HAS HAD TO RESORT TO A FORMAL NEGATIVE DECISION WHEN IT FEELS PROVISIONS OF AN AID SCHEME ARE INCONSISTENT WITH THE REQUIREMENTS OF A COMMON MARKET. USUALLY COMMISSON PRESSURES WILL BE ENOUGH TO CONVINCE THE GOVERNMENTS CONCERNED TO EITHER MODIFY OR WITHDRAW OBJECTIONABLE ELEMENTS OF THE PLAN.

4. FOR EXAMPLE, EARLIER THIS YEAR THE COMMISSION OBJECTED TO AN ITALIAN SCHEME INTRODUCING NEW GRANTS FOR PRODUCTION AND INVESTMENT IN SHIPBUILDING, A DECLINING SECTOR. THE ITALIAN GOVERNMENT FINALLY AGREED NOT TO GRANT ASSISTANCE FOR EXPANSION OF PRODUCTION CAPACITY LIMITED OFFICIAL USE

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AND ABANDONED PLANS TO GRANT FINANCING ASSISTANCE TO SHIPYARDS FOR PURCHASES OF RAW MATERIALS AND EQUIPMENT; ASSISTANCE FOR SHIP REPAIRS WAS LIMITED TO ONE YEAR ONLY. THE COMMISSION THEREUPON DECIDED NOT TO OBJECT TO THE NEW SCHEME.

5. THE COMMISSION ALSO PERSUADED THE UK TO MODIFY ITS SCHEME TO ASSIST THE MACHINE-TOOL INDUSTRY. THIS SCHEME WAS TO GIVE ASSISTANCE TO PRODUCT DEVELOPMENT, RATIONALIZATION AND STOCKBUILDING. THE COMMISSION FELT THAT THE FIRST TWO FORMS OF AID MIGHT CONTRIBUTE TO THE DEVELOPMENT IF THE INDUSTRY WITHOUT SERIOUSLY DISTORTING TRADE, BUT FORCED THE UK TO ABANDON THE STOCKBUILDING AIDS BEFORE WITHDRAWING ITS OPPOSITION.

6. DURING THE LAST YEAR THE COMMISSION HAS ALSO OBJECTED TO SEVERAL OTHER INDUSTRIAL AID SCHEMES INCLUDING:

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-- A UK CREDIT AID TO DOMESTIC MANUFACTURES OF EQUIPMENT
FOR OFF-SHORE OIL INSTALLATIONS. THE COMMISSION IS
PRESSURING THE UK TO OFFER THIS ASSISTANCE TO
PRODUCERS IN ALL EC MEMBER ON A NON-DISCRIMINATORY
BASIS.

-- AN ITALIAN EXPORT AID TO PROMOTE SALES OF ITALIAN
TOYS ON THE FRENCH MARKET. THE COMMISSION NOTED
THAT THE SCHEME WAS ILLEGAL AND SHOULD BE ABOLISHED
IMMEDIATELY ON TWO COUNTS; FAILURE OF THE ITALIAN
GOVERNMENT TO NOTIFY THE COMMISSION OF THE SCHEME,
AND DISTORTION OF TRADE BETWEEN MEMBER STATES.

-- AN ITALIAN AID PROMOTING SALES OF TEXTILE, CLOTHING,
AND FOOT WEAR IN OTHER MEMBER STATES, PARTICULARLY
GERMANY.

-- THE FRENCH MONOPOLY RIGHT TO IMPORT, EXPORT, AND
MARKET ALCOHOL IN FRANCE AND THE COUNTERVAILING DUTY
ON SPIRITS IMPORTED FROM OTHER MEMBER STATES, WHICH
IS DESIGNED TO OFFSET THEIR PRICE ADVANTAGE OVER
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FRENCH ALCOHOLS.

-- A GERMAN WASTEWATER DRAFT LAW PROVIDING LEVIES ON WASTE-WATER BUT ALLOWING AUTOMATIC EXPEMPTION FOR THREE YEARS FROM THE LEVY IF A FIRM UNDERTAKES CONSTRUCTION OF A PURIFICATION PLANT. WHILE THE COMMISSION ACCEPTED THAT MEMBER STATES MAY COME TO THE AID OF EXISTING FIRMS WITH NEW OBLIGATIONS REGARDING ENVIRONMENTAL PROTECTION, IT FELT THAT GENERAL AIDS OF THIS TYPE SHOULD NOT BECOME THE RULE FOR THE FUTURE.

7. CONCERNING REGIONAL AIDS, THE COMMISSION IS CONDUCTING A GENERAL REVIEW OF MOST OF THESE SCHEMES IN THE MEMBER STATES AND EXPECTS TO HAVE SOME CONCLUSIONS LATER THIS YEAR ON THEIR COMPATIBILITY WITH THE COMMON MARKET. THE COMMISSION STAFF AND MEMBER STATES ARE TRYING TO FORMULATE COMPARABLE MEASUREMENT CRITERIA FOR ALL TYPES OF REGINAL AID IN THE COMMUNITY INCLUDING SO-CALLED OPAQUE AIDS WHICH CANNOT BE EXPRESSED AS A PERCENTAGE OF THE RELEVANT INVESTMENT. IN THIS REGARD THE COMMISSION EXAMINED A FRENCH PROPOSAL LAST YEAR FOR CHANGES IN ITS REGIONAL POLICY IN THE ARDENNES DEPARTMENT. THE COMMISSION ASKED THE FRENCH TO OBSERVE THE 20 PERCENT OF INVESTMENT MAXIMUM LEVEL PRESCRIBED BY THE EC FOR THAT REGION AND TO INFORM THE COMMISSION OF ANY SIGNIFICANT AIDS OUTSIDE OF SPECIFIED TYPES OF INVESTMENT.

8. AN EXCELLENT SOURCE OF INFORMATION ON STATE AIDS IS THE COMMISSION'S ANNUAL REPORT ON COMPETITION POLICY. THE FIFTH REPORT, COVERING 1975, IS AVAILABLE IN EUR/RPE AND THE MISSION HAS BEEN PROMISED AN ADVANCE OCPY OF THE SIXTH REPORT WHICH WE WILL POUCH WITHIN 2-3 WEEKS. FOR FURTHER INFORMATION SEE: (REFS. B & C) SECTORAL AND REGIONAL AIDS, AND ADJUSTMENT ASSISTANCE PROGRAMS; LIMITED OFFICIAL USE

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(REFS. D & E) GENERAL STATE AID PHILOSOPHY AND GUIDELINES; AND (REFS. F, G AND H) CURRENT CASES BEFORE THE COMMISSION.

9. MISSION IS CONTINUING EFFORTS TO OBTAIN COPY OF CLOSELY HELD COMMISSION COMPENDIUM OF THE MANYFORLD MEMBER STATE SUBSIDIES TO AGRICULTURE. HINTON

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